HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 11.1
Audit & Finance Standing Committee
September 19, 2018
October 17, 2018

TO: Chair and members of the Audit & Finance Standing Committee

                      Original Signed

SUBMITTED BY:
_____

Jerry Blackwood, Acting Director/CFO, Finance and Asset Management

                      Original Signed

_____

Jacques Dubé, Chief Administrative Officer

DATE: August 13, 2018

SUBJECT: Update on Recommendations from the Auditor General's Audit of Procurement Dated May 2018

INFORMATION REPORT

ORIGIN

At the May 16, 2018 session of the Audit and Finance Standing Committee, the Auditor General presented a report of their findings from an audit of the procurement department completed in early 2018. The report included twenty-eight (28) recommendations to be addressed by the Procurement, Accounting and ICT departments.
Motion approved to accept the Auditor General's Report and presentation. Motion approved that the Audit and Finance Standing Committee request that the Chief Administrative Officer prepare a report, by September 2018, on actions being undertaken by staff in response to the recommendations outlined in the Auditor General's report on procurement dated May 2018.

BACKGROUND

The Auditor General's Office completed an audit of the Procurement department in early 2018, the purpose of which was to determine whether HRM effectively manages procurement practices to achieve value for money. The objectives of the audit were to determine whether HRM:
- Has policies, systems and controls to ensure procurement risks are effectively managed and procurement activities provide value for money, and
- Procurement services are managed to ensure they are efficient and performed in a timely manner.
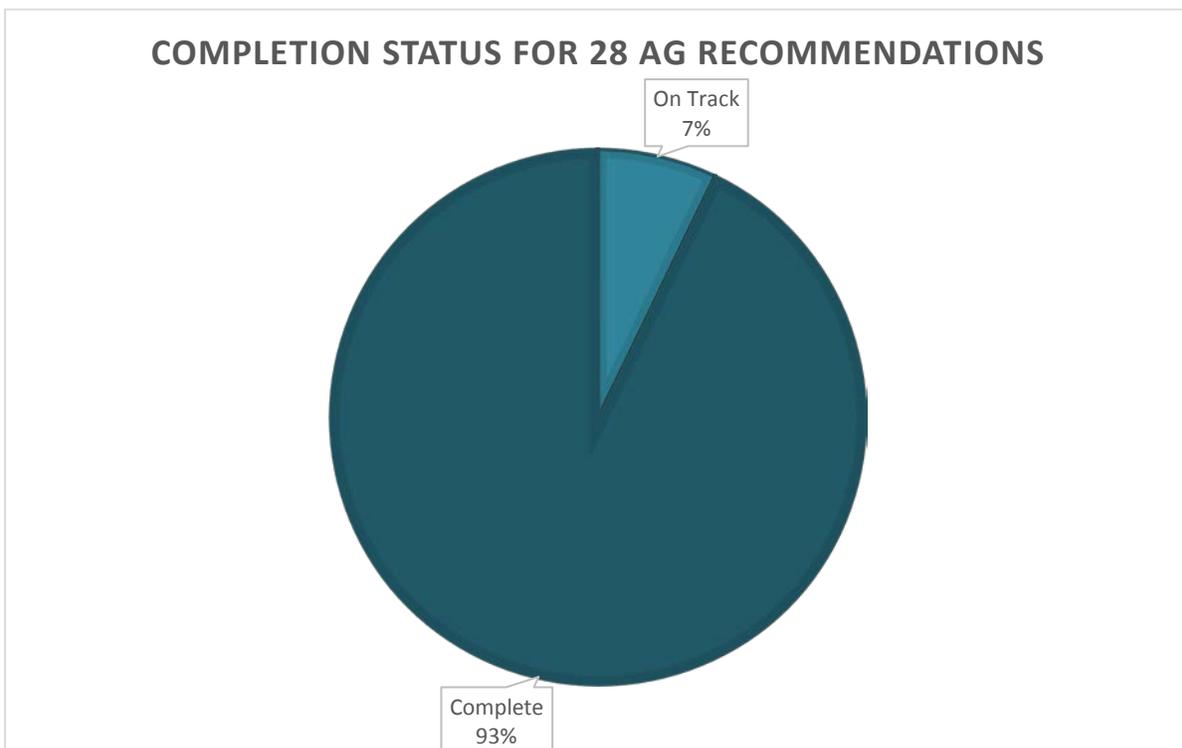
The audit findings determined that the management of HRM procurement activities needs significant improvement. Twenty-eight (28) recommendations were made, and a commitment was made by the CAO to provide an update by September to Audit & Finance Committee on the progress made by September 2018.

DISCUSSION

Currently 93% completion (26 of the 28 recommendations) have been completed, with the remaining 2 to be completed within the next few months.

Considerable progress has been made in several key areas with specific actions being delivered, including:

- Conflict of Interest Process enhanced, documented and in use

- Checklists for all types of solicitations and alternate procurements are in use

- Work spaces are secure and clean

- SAP access has been moved to role based security, with segregation of duties

- Monitoring and reporting of noncompliance to the *Procurement Policy* has increased

- Access to Procurement's work area, tender room and drives has been restricted

COMPLETION STATUS FOR 28 AG RECOMMENDATIONS

On Track
7%

Complete
93%

Response to Auditor General's Audit of Procurement Status Update

Status	Status Defined	Total	Percent
ON TRACK	Recommendations marked 'on track' have been assigned to the appropriate individuals, with achievable target dates and are progressing accordingly.	2	7%
AT RISK	Recommendations marked 'at risk' require immediate attention so necessary actions can ensue.	0	0%
COMPLETE	For the purposes of this project, recommendations marked 'complete' are those where no further actions are required.	26	93%
PENDING	Recommendations marked 'pending' have not yet been assigned target dates, and are dependent upon the completion of other recommendations.	0	0%
TOTAL		28	100%

Progress Report
Response to Auditor General's Audit of Procurement Status Update

No.	Recommendation	Status	Details
1	Procurement and Accounting should review current SAP access and address inappropriate access.	ON TRACK	• Procurement positions have been completed • Positions external to Procurement with SAP access to procurement function – if not required access has been removed; if required, a role with specified access has been assigned. A few roles will be assessed by Human Resources for job function and role clarity • Accounting positions have had their SAP security access determined based on the role they perform. The new roles will be implemented once finalized and tested, expected within the next three months. • ICT reports that phase 1 (role based security for individuals) was implemented on Aug 3, and Phase 2 (position based security) will be completed before the end of October • ICT reports that SAP User Access groupings will be reviewed semi-annually with business owners to ensure the right access is being provided to the correct position/staff
2	Procurement and Accounting should implement a process to remove access as employees leave HRM or change access as	COMPLETE	• Currently this is a manual notification process to ICT for all business units until ICT implements an automated process • ICT reports that the move to position based security will include a business

No.	Recommendation	Status	Details
	they move within the organization.		process change requiring all managers to complete and submit the Employee Data Change form for employees leaving HRM or changing positions, and key data into SAP a minimum of the day of termination.
3	Procurement and Accounting should limit access to the master vendor file to only those who require it	COMPLETE	• For Procurement, access is restricted to the Master Data Administrator, with a designated back up role • In Accounting, access to banking information will be limited to the Accounts Payable Supervisor and their designated backup.
4	Procurement and Accounting should review duplicated vendors and block payments to vendors that are not needed	COMPLETE	• Procurement has a documented process to block duplicate vendors as they are encountered • The lack of automation with regard to this process has been identified to ICT as a pain point with HRM's current version. There is no fix in the near future
5	Monitoring changes to vendor information should be performed by someone who does not have access to update vendor information.	COMPLETE	• Manager of Procurement (who does not have access to this function) reviews a daily report of changes made.
6	SAP monitoring reports used to identify vendor changes should be regularly reviewed and cover all dates in the period to ensure all changes are verified.	COMPLETE	• A daily report is generated to monitor changes to vendor information and is reviewed by Manager of Procurement • The Accounting Controls & Reporting Manager requests reports on a regular basis. (3-5 times per week). This manager maintains a daily task log of dates reviewed. All changes from

No.	Recommendation	Status	Details
			June 1, 2017 to April 30, 2018 were reviewed; a review will occur at regular intervals.
7	Vendor banking change forms should be reviewed quarterly.	COMPLETE	• Financial Reporting Manager reviews reports 3 to 5 times per week.
8	Vendor banking information should not be changed until it has been confirmed with the vendor to reduce the risk of fraud and error.	COMPLETE	• Vendors companies do not have the final change done of banking information until Accounting Manager has verified the information was entered correctly and phone calls made to confirm the information and approves the changes. The Manager of Financial Reporting then approves the changes • Vendors that are not companies do not require a call back to confirm the information so those accounts are changed when entered. • A review of data entry on all changes is done daily or every second day for accuracy
9	Procurement should require staff to compare invoices to contract amounts and confirm the invoice does not exceed the contract price before payment is made.	COMPLETE	• Process documented for comparing invoice to agreement or contract pricing; includes instances when adjustments to a purchase order are allowed, such as freight charges.
10	Procurement should ensure all evaluators sign conflict of interest forms before participating in bid evaluation committees.	COMPLETE	• Process documented and available on Inside HRM/Procurement/Tools; outlines responsibilities of Procurement and of the Evaluators. • Note that COI forms are required for those who can influence the outcome of the evaluation, not by someone (like a director) who simply reviews a recommendation and provides a

No.	Recommendation	Status	Details
			Yes/No reply to an award recommendation
11	Procurement should implement quality control checks on its files. These should be done by a second person not involved in the procurement to ensure all necessary documents are on file. A checklist of required documentation at the front of each file would help ensure files are complete.	COMPLETE	• Checklists developed and implemented on July 16 for regular solicitations and Alternate Procurements (4 types)
12	Procurement staff should sign conflict of interest forms for each evaluation they are involved in.	COMPLETE	• Included within new process documented for Conflict of Interest (COI) (#10 above)
13	Procurement should establish and enforce a threshold over which conflict of interest forms should be signed by those involved in evaluating procurement submissions.	COMPLETE	• Threshold set at $25,000 which is the value required in the *Procurement Policy* when solicitations are publicly posted on the Province of Nova Scotia procurement web portal
14	Procurement should update the *Procurement Policy* guide (for Administrative Order 2016-005-ADM) to comply with the conflict of interest requirements in the Nova Scotia Public Procurement Act. The guide should also provide examples of conflict of interest which evaluators can refer to.	COMPLETE	• The guide has been updated and includes examples

No.	Recommendation	Status	Details
15	Procurement should require evaluators to include support for their scores and document changes in the file.	COMPLETE	• Request for Proposal (RFP) Evaluation Guidelines have been prepared and shared with Business Units. Copy will be sent to evaluators and includes this requirement
16	An independent person should check evaluation score calculations for accuracy before the contract is awarded.	COMPLETE	• Peer review of scores prior to moving forward with award is required, noted as requirement on checklists (#11)
17	Procurement should maintain files for alternate procurements and have guidelines so staff understand what documentation to keep, to support the use of the alternate procurement.	ON TRACK	• Checklists for the 4 types of alternate procurements have been developed • Procurement has identified the documents to Access & Privacy that they believe need to be attached in SAP; role based security will ensure that only those staff who need access to these attachments will have access.
18	Procurement should establish a second person review of the quarterly bid report to Regional Council to confirm completeness	COMPLETE	• Process to prepare report has been documented and Manager of Procurement is the second person review
19	Procurement should ensure all staff processing requests to initiate purchases are aware of the approval requirements in the *Procurement Policy*.	COMPLETE	• Guidelines developed to ensure staff confirm approval. Education/tool provided to all staff who process requisitions
20	Procurement should update the delegated authority list regularly. There should also be a process to update it as people move	COMPLETE	• Process now in place whereby procurement reaches out to Business Units on a regular basis, seeking updates to what they currently have in place. There is a responsibility for the

No.	Recommendation	Status	Details
	within HRM or leave the organization.		Business units to submit updates to Procurement as changes occur
21	Procurement should establish a process to ensure contract extensions are monitored. • Clarified to note that "contract" refers to agreements (standing offer, scheduling) as the new policy does not permit contracts to be extended	COMPLETE	• Process now in place whereby the Procurement Lead who is responsible for the agreement determines the course of action when agreement reaches the end date or maximum value. Manager of Procurement monitors this data monthly to ensure expiry dates and max values are being addressed
22	Procurement should clarify the *Procurement Policy* to limit director's ability to purchase from a standing offer to the approved director-spending thresholds for other procurement types.	COMPLETE	• Council ratified the *Procurement Policy* on February 7, 2017 which, as per section 19 Standing Offers, states that individual draws from a standing offer shall be approved by a Director. • The move to limit the Director to an amount not exceeding $100,000 would result in a significant increase of work being sent to the CAO to approve (in 2017/18, there were 117 draws exceeding $100,000 that would now require CAO approval). Should Council want to pursue an amendment to the *Procurement Policy*, a motion should be made to this effect
23	Procurement should improve contract monitoring for increased spending and possible split purchases to confirm required approvals were obtained.	COMPLETE	• Process has been developed for a monthly report which looks at six (6) months of data involving all POs created by vendor; the top 20% of total purchases are analyzed and assessed for possible split purchases that requires further investigation

No.	Recommendation	Status	Details

24	Procure should enforce the *Procurement Policy* and monitor to ensure all requirements are met.	COMPLETE	• Procurement undertakes the following activities to monitor compliance:
			
			  • provides guidance and best advice to our clients
			  • offers education sessions multiple times annually
			  • the Procurement website contains helpful tools to use
			  • incidents of non-compliance are reported to directors

25	Procurement should revise its reporting of noncompliant purchases to include details which would allow directors to follow up with their staff.	COMPLETE	• The monthly report sent to directors on POs now includes documentation of those that are non-compliant, with the expectation that Directors will follow up with the applicable staff person
26	Procurement should improve security of confidential files so they are not accessible to anyone in the Procurement office area.	COMPLETE	• Access to the Procurement files on the H drive has been restricted to Procurement staff only • Procurement files on the R shared drive are being moved as access cannot be restricted here • Temporary Access passes formerly kept in procurement have been returned to Security • Access to the tender file room on 1st floor Alderney has been restricted to three (3) Procurement staff and three (3) Customer Service staff only who require access • A new door installed restricts access to the Procurement work space on 6th floor Alderney to Procurement staff who work there

No.	Recommendation	Status	Details
			• Card swipe access installed for the file room in the Procurement work space restricts access to specifically identified Procurement staff • Secure and Clean Workspace Guidelines have been implemented. All staff have adequate locked space capacity available to secure what work they have in progress when not physically present.
27	Access to physical and electronic files should be changed as employees move within the organization or leave HRM.	COMPLETE	• Addressed through the implementation of role based security as described above
28	Procurement management should use available performance data and set targets to measure against.	COMPLETE	• Procurement is reporting their 2017-18 data on three (3) Key Performance Indicators, as part of HRM's participation in Municipal Benchmarking Network Canada this year • Procurement is also networking with colleagues to determine other standard KPIs HRM could be reporting on

FINANCIAL IMPLICATIONS

There are no financial implications.

COMMUNITY ENGAGEMENT

None

ATTACHMENTS

None

SUMMARY

Significant progress has been made by staff in Procurement, Accounting and ICT to address the recommendations, with 93% complete and the remaining 2 recommendations on track for completion.

The Auditor General, in their May 2018 report, noted that the new Procurement Policy provides a good framework. Procurement intends to take identified amendments to Council within the next few months in order to strengthen the framework. These amendments are the result of feedback from policy users, as well as issues identified through the audit.

Procurement personnel, as a matter of due diligence and in the interest of incorporating best practice, reached out to both provincial and national procurement colleagues, to see what tools and processes they had available to share. While many had informal processes and some had draft documents, HRM did not receive any completed documents for actual review. HRM was asked to share what they developed, which was done, and HRM is now recognized as leading practice by many.

ATTACHMENTS

None

_____

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Jane Pryor, Manager, Procurement, Finance & Asset Management, 902-490-4200

_____